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102D CONGRESS
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HOUSE OF REPRESENTATIVES

REPORT
102-339

EXTENSION OF NONDISCRIMINATORY TREATMENT TO THE BALTIC NATIONS

NOVEMBER 19, 1991.—Committed to the Committee of the Whole House on the State of the Union and ordered to be printed

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Mr. ROSTENKOWSKI, from the Committee on Ways and Means, submitted the following

REPORT

[To accompany H.R. 3313]

[Including cost estimate of the Congressional Budget Office]

The Committee on Ways and Means, to whom was referred the bill (H.R. 3313) extending nondiscriminatory treatment (most-favored-nation treatment) to the products of Estonia, Latvia, and Lithuania, and for other purposes, having considered the same, report favorably thereon without amendment and recommend that the bill do pass.

BACKGROUND, SUMMARY, AND REASONS FOR CHANGE

U.S. trade relations with Estonia, Latvia, and Lithuania (the Baltic states) have a complicated legal past. After extending full diplomatic recognition to each of these countries in 1922, the United States in the next few years negotiated separate commercial treaties with each country, which provided for the extension of most-favored-nation (MFN) treatment on a reciprocal basis. A 1939 agreement between the Soviet Union and Germany contained a secret protocol assigning Estonia, Latvia, and Lithuania to the Soviet sphere of influence; and those countries were forcibly incorporated into the Soviet Union in 1940. Because the United States never recognized this forcible incorporation, the United States has consistently regarded the bilateral trade treaties as continuing in force.

The Trade Agreements Extension Act of 1951, enacted during the Korean War, directed the President to suspend, withdraw, or prevent the application of MFN status to the Soviet Union and all countries under the control of international communism. This

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action was prompted by the support that these countries were giving to North Korea and China. As implemented, this directive was applied to all then-existing communist countries except Yugoslavia. That same year, the United States exchanged letters with responsible representatives of Estonia, Latvia, and Lithuania, in which those representatives indicated that they did not object to the imposition of any controls on their trade which the United States considered appropriate while those countries remained under Soviet domination or control.

In Title IV of the Trade Act of 1974, the Congress adopted a new regime to govern U.S. trade relations with nonmarket economy countries. Title IV continued the denial of MFN treatment to the products of any country not receiving MFN treatment upon the date of enactment, which included Estonia, Latvia, and Lithuania by virtue of their continued control by the Soviet Union. Title IV also set forth certain conditions (relating to freedom of emigration) under which MFN status could be restored to nonmarket economy countries.

Following the collapse of communism in Eastern and Central Europe and even within the Soviet Union itself, events moved quickly with respect to the diplomatic status of the Baltic states. In 1990 the democratically elected parliaments of Estonia, Latvia, and Lithuania each declared the restoration of their country's independence from the Soviet Union. The United States established diplomatic relations with each country on September 2, 1991; and the transitional government of the Soviet Union recognized their independence on September 6, 1991, thereby ending the forcible incorporation of those states into the Soviet Union.

These political developments set the stage for the resumption of normalized trade relations between the United States and the Baltic states. Enactment of H.R. 3313 would extend MFN status unconditionally to the products of the three Baltic states and would repeal the application of Title IV with respect to each country, effective 15 days after enactment. H.R. 3313 also expresses the sense of the Congress that the President should take prompt action under Title V of the Trade Act of 1974 to extend Generalized System of Preferences (GSP) benefits to the Baltic states. Those states now are eligible for GSP benefits due to their independence from the Soviet Union.

The Ways and Means Subcommittee on Trade recently concluded a fact-finding trip to the Soviet Union and Estonia, among other countries. Members of the delegation were impressed with the steps that already have been taken by the government of Estonia, and the additional steps that are planned, to remove the vestiges of communist control of the economy and to restore control of their border. Representatives of the Estonian government stressed repeatedly and forcefully that they wanted MFN status to be extended to Estonia separate from that of the Soviet Union. They also expressed the view that the 1925 trade treaty with Estonia should form the basis of the restoration of Estonia's MFN status. They viewed MFN status as an important step the United States could take to help promote Estonia's transition to a market-oriented economy. In letters and other documents provided to the Com-

mittee, representatives of the other Baltic states have expressed the same views.

Because of the unique diplomatic history of the Baltic states; and because bilateral treaties providing for MFN status remain in force; the Committee believes strongly that the MFN status of the Baltic states should be restored through separate legislative action, rather than through the procedures provided for in Title IV. The Baltic states were included under the provisions of Title IV solely due to their forcible incorporation in the Soviet Union. To insist that the Baltic states pursue restoration of their MFN status through the mechanisms of Title IV would only perpetuate the effects of that forcible incorporation. In the view of the Committee, such an insistence would impose an unnecessary burden on countries seeking to rejoin the free, democratic nations of the West in as expeditious a fashion as possible.

Committee Action

H.R. 3313 was introduced on September 12, 1991, by Representatives Gibbons, Jenkins, Pease, Schulze, Anthony, Coyne, Johnson of Connecticut, Moody, et al, and referred to the Committee on Ways and Means. The bill was subsequently referred to the Subcommittee on Trade. The Subcommittee travelled to Estonia, among other countries, on a fact-finding trip in September 1991; and held a public hearing on the question of MFN status for the Baltic states and the Soviet Union on September 23, 1991. Representatives of the Administration, and a number of individuals, firms, and business associations testified at the hearing and expressed strong support for the bill. The Committee is not aware of any opposition to the bill. On September 24, 1991, the Subcommittee on Trade ordered H.R. 3313 favorably reported, by voice vote, to the full Committee on Ways and Means, without amendment. On November 19, 1991, the Committee on Ways and Means ordered H.R. 3313 favorably reported, by voice vote, without amendment.

Analysis of Legislation and Comparison With Present Law

Present law

The law governing U.S. trade relations with nonmarket economy countries is Title IV of the Trade Act of 1974 (the so-called Jackson-Vanik amendment), as amended by the Customs and Trade Act of 1990. That title requires the President to deny MFN status to those nonmarket economy countries which did not receive such status on the date of enactment. Because Estonia, Latvia, and Lithuania on the date of enactment were under the forcible control of the Soviet Union, this prohibition applied to those states.

Title IV also authorizes the President to extend MFN status to a nonmarket economy country, if that country meets three requirements relating to the freedom of emigration of its citizens. Alternatively, the President may waive those requirements and extend MFN status on an annual basis to a nonmarket economy country, subject to disapproval by Congress. Finally, Title IV requires that a trade agreement providing MFN status remain in force between the United States and the nonmarket economy country receiving

MFN status; and it sets forth minimum provisions which must be included in such an agreement.

General Note 3(b) of the Harmonized Tariff Schedule of the United States includes Estonia, Lativa, and Lithuania on the list of countries subject to Column 2 (non-MFN) rates of duty.

Title V of the Trade Act of 1974 authorizes the President to provide duty-free, Generalized System of Preferences (GSP) treatment to any eligible article from designated beneficiary developing countries, subject to certain conditions and limitations. Under Section 502, the President is prohibited from designating as beneficiary developing countries certain specified developed countries, including the Soviet Union; communist countries unless certain criteria are satisfied; and countries which do not meet other specified criteria. Because Estonia, Latvia, and Lithuania are now independent of the Soviet Union, they are eligible for GSP benefits, subjects to the criteria of Title V.

Explanation of provision

H.R. 3313 applies nondiscriminatory, MFN treatment to the products of Estonia, Latvia, and Lithuania, notwithstanding Title IV or any other provision of law. It amends General Note 3(b) to remove these three countries form the application of Column 2 (non-MFN) rates of duty. H.R. 3313 also provides that Title IV shall cease to apply to Estonia, Latvia, and Lithuania. These provisions apply with respect to goods imported on or after the 15th day after the date of enactment of the Act. With respect to Title V of the Trade Act of 1974, the bill expresses the sense of the Congress that the President should take prompt action under Title V to provide GSP benefits to the products of Estonia, Latvia, and Lithuania.

Matters Required To Be Discussed Under the Rules of the House

VOTE OF THE COMMITTEE IN REPORTING THE BILL

In compliance with clause 2(l)(2)(B) of rule XI of the Rules of the House of Representatives, the following statement is made relative to the vote of the Committee in reporting the bill: H.R. 3313 was ordered favorably reported without amendment by the Committee, by voice vote.

OVERSIGHT FINDINGS

In compliance with clause 2(l)(3)(A) of rule XI of the Rules of the House of Representatives relating to oversight findings, the Committee strongly recommends that the House approve H.R. 3313. On the basis of a fact-finding visit to Estonia by the Subcommittee on Trade and public comments received during the Subcommittee's hearing, it is the conclusion of the Committee that passage and enactment of H.R. 3313, and the unconditional extension of MFN status to the Baltic states, will contribute to those countries' transition to market-oriented economies. It also will enhance trade and investment opportunities for U.S. firms interested in establishing business relations in those countries.

With respect to clause 2(l)(3)(D) of rule XI of the Rules of the House of Representatives, no oversight findings or recommendations have been submitted to the Committee by the Committee on Government Operations with respect to the subject matter contained in the bill.

BUDGETARY AUTHORITY AND COST ESTIMATES, INCLUDING ESTIMATES OF THE CONGRESSIONAL BUDGET OFFICE

In compliance with clause 2(l)(3)(B) of rule XI of the Rules of the House of Representatives, the Committee states that there are no tax expenditures or new budgetary authority providing financial assistance to State and local governments in the bill. Regarding the application of the provisions for sequestration under the Balanced Budget and Emergency Deficit Control Act of 1985, the Committee notes that it has received the following letters from the Director of the Office of Management and Budget:

EXECUTIVE OFFICE OF THE PRESIDENT,
OFFICE OF MANAGEMENT AND BUDGET,
Washington, DC, November 18, 1991.

Hon. DAN ROSTENKOWSKI,
Chairman, Committee on Ways and Means, U.S. House of Representatives, Washington, DC.

DEAR MR. CHAIRMAN: We have what I understand to be a shared interest in enactment of pending Baltic, Soviet, and Andean trade agreements. We also share an interest in assuring that the enactment of these agreements would not trigger a sequester.

With our common interest in view, and given what now appears to be a realistic prospect that Congress will recess before Thanksgiving, I wish to bring the following to your attention. Based on legislation enacted to date, OMB would officially estimate in the end-of-session Sequestration Report that the pay-as-you-go balance is positive for each of the fiscal years 1992 through 1995. This positive current balance is now sufficient to offset what OMB estimates to be the pay-as-you-go costs of the pending trade agreements. Therefore, if these trade agreements were enacted promptly, while the pay-as-you-go balance is positive, their enactment would not trigger a sequester under the Budget Enforcement Act.

It is, of course, possible that other legislation might be enacted which would turn the pay-as-you-go balance negative. But I know of no such legislation that we are now supporting that is likely to be enacted before the session ends. If unforeseen legislation were enacted that turned the balance negative, a sequester would be triggered unless the imbalance were corrected. But in that hypothetical circumstance, I can assure you that we would not (and we could not fairly) attribute the cause of the sequester to the enactment of the trade agreements—provided their enactment occurred while the pay-as-you-go balance were sufficient to offset them.

For these reasons, I would again urge the enactment of the pending trade agreements—now, while the pay-as-you-go balance is a sufficient offset—and will continue to work with you to that end.

With best regards,

RICHARD DARMAN,
Director.

EXECUTIVE OFFICE OF THE PRESIDENT,
OFFICE OF MANAGEMENT AND BUDGET,
Washington, DC, November 19, 1991.

Hon. DAN ROSTENKOWSKI,
Chairman, Committee on Ways and Means, U.S. House of Representatives, Washington, DC.

DEAR MR. CHAIRMAN: This note is simply to confirm two matters of scoring with the prospect of enactment of H.R. 1724 now in view.

We have not yet completed the final out-year scoring of P.L. 102–164, the Emergency Unemployment Compensation Act of 1991. Nonetheless, it is clear that enactment of H.R. 1724 would not change two conclusions I recently shared with you:

(1) by letter of November 13, 1991—the conclusion that enactment of the unemployment insurance compromise (now including H.R. 1724 as passed by the Senate) would not trigger a sequester; and

(2) by letter of November 18, 1991—the conclusion that OMB's current estimate of the pay-as-you-go surplus (after enactment of the compromise) is sufficient to offset certain pending trade agreements that are in the United States interest.

With best regards,

RICHARD DARMAN,
Director.

In compliance with clause 2(l)(3)(C) of rule XI of the Rules of the House of Representatives, the Committee agrees with cost estimates furnished by the Congressional Budget Office on H.R. 3313 and required to be included herein:

U.S. CONGRESS,
CONGRESSIONAL BUDGET OFFICE,
Washington, DC, November 18, 1991.

Hon. DAN ROSTENKOWSKI,
Chairman, Committee on Ways and Means, U.S. House of Representatives, Washington, DC.

DEAR MR. CHAIRMAN: The Congressional Budget Office has reviewed H.R. 3313, a bill permanently extending most-favored-nation (MFN) status to Estonia, Latvia, and Lithuania, as marked up by the Trade Subcommittee of the House Committee on Ways and Means on September 24, 1991. CBO estimates that enactment of H.R. 3313 would result in a $1 million reduction in federal government revenues each year in fiscal years 1992 through 1996.

Under Title IV of the Trade Act of 1974, MFN status may not be conferred on a country with a nonmarket economy if that country maintains restrictive emigration policies. Estonia, Latvia, and Lithuania, because of the forced annexation of these countries into the USSR, have not qualified for MFN status in the past. On Septem-

ber 2, 1991, the U.S. established diplomatic relations with Estonia, Latvia, and Lithuania. On September 6, 1991, the transitional government of the USSR recognized the independence of Estonia, Latvia, and Lithuania.

H.R. 3313 would extend MFN status to Estonia, Latvia, and Lithuania. The bill would also mandate that Title IV of the Trade Act of 1974 cease to apply to Estonia, Latvia, and Lithuania. Granting MFN status and eliminating the application of Title IV of the Trade Act of 1974 would permanently lower tariff rates on imports from each of the countries. The net effect on the federal budget of lowering the tariff rate would be a reduction in customs duty revenues below the level projected under current tariff rates. While imports would rise in response to the lower domestic price resulting from the lower tariffs, the negative effect on revenues of the lower tariff rates would outweigh the positive effect on revenues of the greater volume of imports from these countries. In addition, it is likely that some of the increase in U.S. imports from these countries will displace imports from other countries. In the absence of specific data on the extent of this substitution effect, CBO assumes that an amount equal to one-half of the increase in U.S. imports from these countries will displace imports from other countries. CBO estimates that, net of income and payroll tax offsets, granting Estonia, Latvia, and Lithuania permanent MFN status would reduce federal government revenues by $1 million per year over fiscal years 1992 through 1996.

H.R. 3313 would affect revenues and thus would be subject to pay-as-you-go procedures under Section 252 of the Balanced Budget and Emergency Deficit Control Act of 1985. As a result, the estimate required under Clause 8 of House Rule XXI also is attached.

PAY-AS-YOU-GO CONSIDERATIONS

[By fiscal year, in millions of dollars]

	1992	1993	1994	1995
Changes in outlays	(1)	(1)	(1)	(1)
Changes in receipts	−1	−1	−1	−1

[1] Not applicable

This estimate is based on 1990 Census data for imports from the USSR, which included Estonia, Latvia, and Lithuania at that time. These data are available for goods by Harmonized Tariff Schedule classification. The increase in imports of goods from these countries brought about by the reduced prices of the imported products in the U.S.—reflecting the lower, MFN tariff rates—has been calculated using estimates of the substitution between U.S. products and imports of these goods. In the absence of trade data specific to Estonia, Latvia, and Lithuania, the estimated revenue effect is calculated as a share of the effect calculated by CBO using 1990 data for the USSR, which included Estonia, Latvia, and Lithuania.

The effect on revenues of H.R. 3313 in 1993 through 1996 is assumed to be the same as in 1992 in the absence of sufficient information on the future supply of goods from Latvia, Lithuania, and Estonia, or future U.S. demand for goods from these countries for a

more refined estimate. Some factors suggesting an increase in imports from Latvia, Lithuania, and Estonia over the 1992 to 1996 period are: possible increased U.S. demand for goods brought by an expanding U.S. economy or possible increased availability for export of goods from these countries because of a supply response to the reduction in U.S. tariffs or because of the freeing up of goods for the export market as earlier arrangements for exporting to other Soviet Republics are relaxed. Such developments, however, may be counterbalanced by factors suggesting a decrease in imports from these countries such as possible devaluation in the currencies of these countries relative to the U.S. dollar.

If you wish further details, please feel free to contact me or your staff may wish to contact John Stell at 226-2720.

Sincerely,

ROBERT D. REISCHAUER,
Director.

CONGRESSIONAL BUDGET OFFICE ESTIMATE [1]

The applicable cost estimate of this Act for all purposes of sections 252 and 253 of the Balanced Budget and Emergency Deficit Control Act of 1985 shall be as follows:

[By fiscal year, in millions of dollars]

	1992	1993	1994	1995
Changes in outlays	(1)	(1)	(1)	(1)
Changes in receipts	−1	−1	−1	−1

[1] Not applicable

INFLATIONARY IMPACT

With respect to clause 2(l)(4) of rule XI of the Rules of the House of Representatives, the Committee states that H.R. 3313 would not have an inflationary impact on prices and costs in the operation of the general economy.

CHANGES IN EXISTING LAW MADE BY THE BILL, AS REPORTED

In compliance with clause 3 of rule XIII of the Rules of the House of Representatives, changes in existing law made by the bill, as reported, are shown as follows (existing law proposed to be omitted is enclosed in black brackets, new matter is printed in italic, existing law in which no change is proposed is shown in roman):

HARMONIZED TARIFF SCHEDULE OF THE UNITED STATES

GENERAL NOTES

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[1] An estimate of H.R. 3313, as marked up by the Trade Subcommittee of the House Committee on Ways and Means on September 24, 1991. This estimate was transmitted by the Congressional Budget Office on November 18, 1991.

3. *Rates of Duty.* The rates of duty in the "Rates of Duty" columns designated 1 ("General" and "Special") and 2 of the tariff schedule apply to goods imported into the customs territory of the United States as hereinafter provided in this note:

(a) * * *

(b) *Rate of Duty Column 2.* Notwithstanding any of the foregoing provisions of this note, the rates of duty shown in column 2 shall apply to products, whether imported directly or indirectly, of the following countries and areas pursuant to section 401 of the Tariff Classification Act of 1962, to section 231 or 257(e)(2) of the Trade Expansion Act of 1962, to section 404(a) of the Trade Act of 1974 or to any other applicable section of law, or to action taken by the President thereunder:

Afghanistan
Albania
Bulgaria
Cuba
[Estonia]
German Democratic Republic
Kampuchea
Laos
[Latvia]
[Lithuania]
Mongolia
North Korea
Romania
Union of Soviet Socialist Republics
Vietnam

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